

## ***The beginnings of paper money circulation and Neapolitan public banks (1540-1650)***

**Luigi De Rosa**

1. In his history of money<sup>1</sup> and in the wake of A.P. Usher, Glyn Davies argues that Leonardo Da Vinci had already envisaged the possibility of replacing coined metallic money with written or printed money. Davies recalls that China, where paper, printing and banknotes were known before they were in other countries, had used paper money for a long time. It abandoned it after a terrible inflation had devastated the country's economy, forcing it to acknowledge the worth and superiority of silver money.

However, while Davies recognises Leonardo Da Vinci's genius and the predominance of paper money in China for such a long time, he is categorical in stating that in Europe paper money was not used before the second half of the seventeenth century, that is before 1640, after which the predominance of foreign banking ceased in Britain and the first British banks began to emerge.

As we know, in the sixteenth and the seventeenth century there was a continuous and increasing rise in the demand for credit: 1) to expand domestic and international shipping and trade; 2) to finance its wars; 3) to service the expansion of the national debt which was no longer the King's debt but was now the nation's ; and 4) to rebuild London which had been seriously damaged by the Great Fire of 1666.

<sup>1</sup> *A History of Money from Ancient Times to the Present Day*, (University of Wales Press, Cardiff, 1994), pp.179 *et seq.*

This growing and complex demand for credit triggered a widespread process of inflation which at first led to the diffusion of counterfeiting and coin sweating<sup>2</sup> and then helped to transform scribes, brokers and merchants into financial institutions which used notes, certificates and cheques<sup>3</sup>. It was not difficult for financial intermediaries like goldsmiths to establish their influence over such operations and alongside other commercial and industrial groups they began to engage in banking activities. By 1660 goldsmiths not only performed the main functions of modern bankers, that is they accepted interest deposits and granted loans to the government and to individuals, but they agreed to use deposits as a basis for issuing orders of payment, providing cash notes or bills that were payable on sight. John Locke observed that one of these goldsmiths issued no less than a million pounds sterling in the form of notes and that this kind of paper money reduced the need for silver money.<sup>4</sup> It is well known, however, that, following the King's refusal to pay the debts, many of the most important goldsmith-creditors were ruined through bankruptcy in the 1680s and ended their lives in the debtor's prison.<sup>5</sup> In fact, as Chowm notes, there were 47 goldsmiths in London in 1667 but only 12 or 14 in 1695 and this cannot be

<sup>2</sup> Gresham's law, that is, the law of Queen Elizabeth's financial advisor, dates from 1558, according to which "bad money drives out good money".

<sup>3</sup> G. Prato (*Lezioni di Storia delle dottrine economiche*, con note e indici a cura di A. Fossati, L. Giappichelli, Torino, 1948 but delivered in 1924-25, pp.73 *et seq*) recalls "that at the time of Smith there were still small free banks in Scotland, some of which were run by traders which operated on request of depositors giving them reimbursable certificates as a guarantee for the sums deposited, sometimes with particular goods". Prato recalls that "experiments in paper issue were undertaken in North America and especially in Massachusetts Bay..." Rothbard reports that in 1685 the Governor of Quebec introduced a kind of paper money (M.N. Rothbard, *Economic Thought before Adam Smith. An Austrian Perspective on the History of Economic Thought*, Vol I, Elgar, Aldershot, 1995, p.227.

<sup>4</sup> F. A. Hayek, "Genesis of the Gold Standard in Response to the English Coinage Policy in the 17<sup>th</sup> and 18<sup>th</sup> Centuries" in *The Collected Works of F.A. Hayek*, vol 3. *The Trend of Economic Thinking. Essays on Political Economists and Economic History*, Edited by W.W. Bayley III and S. Kresge, The University of Chicago Press, Chicago-London, 1991, pp. 131 *et seq*.

<sup>5</sup> M.N. Rothbard, *Economic Thought before Adam Smith*, *op.cit.*, p,229.

explained by mergers. There were runs on goldsmiths' shops in 1674, 1678 and 1688.<sup>6</sup>

The banknotes which began to circulate should not be confused with bills of exchange (*lettres de change, cambiali*) which had been widely used by merchant bankers, especially Italians, since the middle ages<sup>7</sup> and continued to be used in England between 1538 and 1640, when the ratio of money to credit changed from 1 to 1 (1538-1561), from 1 to 4.5 (1563-1589), from 1 to 12 (1590-1620), from 1 to 11 (1621-1639) and from 1 to 6 (1640-1660). The paper money we are referring to represented "a milestone in the world's money history". It circulated by means of a simple endorsement and could be presented to the issuing bank for immediate exchange in specie. Nonetheless it did not begin to circulate in the second half of the seventeenth century but goes back to the second half of the sixteenth century.

That British money experts in the sixteenth and seventeenth century knew that some form of paper currency had been in circulation for some time in a corner of the vast Spanish Empire is evident as in 1641 Henry Robinson urged the British to follow the example of Italian banks that had long been operating in order to develop trade.<sup>8</sup> In 1650 William Potter stressed that such developments could be easily realised by "an abundant issue of banknotes"<sup>9</sup>. Later in 1682 Sir William Petty also wrote about

<sup>6</sup> J.F. Chowm, *History of Money from AD 800*, (Routledge, London-New York, 1994), pp.134-135.

<sup>7</sup> M.T. Boyer-Xambeu, G. Deleplace, L. Gillaud, *Monnaie privée et pouvoir des princes, L'économie des relations monétaires à la Renaissance*. Préface de P. Jeannin, (Éditions du CNRS-Presses de la Fondation Nationale des Sciences Politique, Paris, 1986), pp.19 et seq. A bridged English version of this work has come out (*Private Money and Public Currencies. The 16<sup>th</sup> Century Challenge*. Foreword by Ch. P. Kindleberger, (M.I. Sharpe, Armonk, New York-London, England, 1994).

<sup>8</sup> H. Robinson, *England's Safety in Trade Increase*. Most humbly presented to the High Court of Parliament, London, printed by E.P. for Nicholas Bourne at the south entrance of the Royal Exchange, 1641.

<sup>9</sup> William Potter, *Discoveries for the division or setting out of land as to best form... and an essay to show how all lands may be improved in a new way (upon Master W. Potter's design concerning a bank of lands)*, (London, 1653). Cf. also W. Potter, *The Key of Wealth*, (London 1650).

money<sup>10</sup>, advocating the creation of a bank that would make it possible to double the circulation of metal currency with paper money. In fact, in the second half of the seventeenth century there were several projects in Britain to introduce a bank that issued paper money to sustain trade.<sup>11</sup> These were initiatives which sprang from the prospects of profits from investments in newly discovered lands and in related trade and business but above all from the financial needs imposed by Britain's involvement in costly wars. Paper money was therefore intended as a means to increase the amount of currency in circulation and financing opportunities.

Although it had been created as a government institution to provide for the government's financial needs, when after long discussion the Bank of England was set up in 1694 (the Bank of Scotland followed in 1695), it did not immediately receive the status of legal tender for its paper but only the advantage of having all government funds deposited there.<sup>12</sup> It was only in 1704 that a special statute established the negotiability of the paper issued by the Bank of England.<sup>13</sup>

Such concessions and even more substantial ones had in fact already been granted to Neapolitan public banks more than a century earlier. Their credit certificates (*fedi di credito*) had been negotiable for some time through endorsement since they were notes which had complete and total legal value. Moreover in 1584 the Viceroy Don Pietro Giron, Duke of Osuna, with the consent of the King of Spain, Phillip II, whose empire comprised the Kingdom of Naples, had established that henceforth these credit certificates would be received as ready cash in the state coffers for all payments owed to the State. The same Viceroy also imposed on the banks

<sup>10</sup> Sir William Petty's "Quantulumcunque concerning money" (London, 1682) in *The Economic Writings of Sir William Petty*, ed. Charles H. Hull, (Cambridge University Press, 1899); reprinted in New York, August M Kelly 1964, vol 1, pp.437-448.

<sup>11</sup> Davies, *op.cit.*, pp.255 et seq., cf. also P.L. Cottrell - B.L. Anderson, *Money and Banking in England*, The development of the Banking System 1694-1914, (David & Charles, Newton Abbot, London, 1974), pp. 90 et seq., pp. 101 et seq.

<sup>12</sup> Rothbard, *op.cit.* p.229.

<sup>13</sup> E.V. Morgan, *A History of Money*, (Penguin Books, Harmondsworth, 1965), pp.23 et seq.

the obligation to lend to the State and to the City of Naples, capital of the Kingdom. Ten years later, in 1594, another Viceroy, Don Giovanni de Zuñiga, the Count of Miranda, ordered public administrations to deposit all their money in Neapolitan public banks.

Therefore there were no differences between the privileges granted to Neapolitan public banks and those of the Bank of England. It is undeniable that the two most important innovations in paper money adopted by Britain between the end of the seventeenth century and the beginning of the eighteenth century – the spread of banknotes and legal acceptance of their negotiability<sup>14</sup> – had already been operative in the Kingdom of Naples since the second half of the sixteenth century. Therefore the discovery of the “great new way to increase the State’s power”<sup>15</sup> owes as much to the Kingdom of Naples and Phillip II’s Empire, as it does to Britain and France.

However, in the case of the Kingdom of Naples, paper money was not introduced to increase credit for the purpose of expanding international trade but rather to replace metal money which was being drained from the country to finance imperial wars, to service the trade deficit which was high in periods of agricultural crisis, to remit to Genoa, Florence, Venice and other centres the earnings that Genoese, Florentine and Venetian merchants received from investments in the Kingdom, and to send to Rome the revenues that the Church collected from its lands in South Italy.

The fact is that since it did not possess mines with precious metals nor a sufficient level of economic activity to guarantee a good flow of precious metals through a surplus in the balance of payments, the Kingdom of Naples frequently had to import large quantities of silver and gold which caused the government’s indebtedness to grow considerably as a result of the high interest incurred in the financing of such a debt.

It is not surprising therefore that paper money, which began

<sup>14</sup> *Ibid.*

<sup>15</sup> Rothbard, *op.cit.*, p.229.



Figure 1, 2,3 and 4 reproduce some of the c. 300 rooms containing the paper money issued by the Neapolitan Public Banks from 1570 to 1860.

to circulate in the Kingdom of Naples in the second half of the sixteenth century, began to take on a large role just as it did in Britain in the eighteenth century with the banknotes of the Bank of England.<sup>16</sup> In his work on *Moneta* in the mid-eighteenth century, Abbot Ferdinando Galiani estimated that paper money in the Kingdom of Naples was worth over 3 million, much more than the silver and gold money in circulation.

But just when and how did the first Neapolitan public banks arise and what was their role?

2. We have to bear in mind that from the middle ages to the beginning of the early modern period, Neapolitan banking was never under the control of Neapolitan bankers. David Abulafia has recently confirmed what previous research had revealed, namely that under Norman rule it was largely Genoese merchant bankers who controlled the movement of capital in the Naples' area.<sup>17</sup> The situation did not change under the Angevins. The Genoese continued to conduct their business although the capital markets were often dominated by Tuscans and later by Venetians as well as by Marseillaises, Provençals and Catalans.<sup>18</sup> Only Alphonse the Magnanimous in the Aragonese period sought to raise the status of Neapolitan banks, although several Catalan banks still operated.<sup>19</sup> However this was a short interlude. During

<sup>16</sup> L. De Rosa, "De la moneda de metal al papel moneda (cartas de crédito), en el Reino de Naples: el papel de los bancos publicos" in A. M. Bernal (ed.), *Dinero moneda y crédito en la Monarquía Hispánica*, (Fundación ICO-Marcial Pons, Madrid, 2000), pp. 659-677.

<sup>17</sup> D. Abulafia, *Le due Italie*, (Guida, Napoli, 1991), tr. It. Pp 308 *et seq.*, 314 *et seq.*, 347 *et seq.*

<sup>18</sup> G Yver, *Le commerce et les marchands dans l'Italie meridionale au XIII.e et au XIV.e siècle*, (Fontemoing, Paris, 1903), pp.217 *et seq.*

<sup>19</sup> In 1448 King Alphonse assigned the Royal Exchequer's treasury functions: he established that all the money received by the latter should be handled by the bank of Giovanni Miroballo who was supposedly one of the richest men in the city. In 1456-57 the privilege was passed to the bank run by his nephews Alberico and Durso Miroballo. Another member of the family, Carlo Miroballo, also performed banking transactions. Cf. A. Ryder, *The Kingdom of Naples under Alfonso the Magnanimous. The Making of a Modern State*, (Clarendon Press, Oxford, 1976), pp.101, 178n, 182-183, 187n, 188-189.

the reign of his successor, Ferrante of Aragon, foreign banks began to dominate, again conditioning capital flows.

Mario Del Treppo has effectively stressed the role the Strozzi Bank performed in Neapolitan banking after 1466. The Strozzi Bank became King Ferrante's bank, "a meeting place between feudal production and mercantile circulation and distribution".<sup>20</sup> A few Neapolitan banks also operated around them<sup>21</sup>, but to a much lesser extent, as well as Tuscan merchant banks which, despite being well established with branches in Naples, Lecce, Trani, Aquila, Sulmona and in Calabria, were nonetheless second in importance to the Catalan banks.<sup>22</sup> "At the apex of the banking-mercantile system there [were] the Strozzi".<sup>23</sup> The advent of the Spaniards (Ferdinand the Catholic I, Charles V) did not change the structure of Neapolitan credit. Genoese, Florentine and Catalan bankers continued to prevail.<sup>24</sup> Silvestri, who has studied the question, mentions only the operations of a Neapolitan banker, Tommasino Matrone<sup>25</sup>, and those of the Citarella brothers, Neapolitans who were partners of the Genoese banker Stefano De' Mari.<sup>26</sup> The trade in currency continued to be dominated by foreigners, among whom the rise of Genoese bankers appeared to be unstoppable especially after 1528 when the Genoese fleet was placed at the service of Spain, even though there was no shortage of Florentine or Catalan bankers.

<sup>20</sup> M. Del Treppo, "Il re e il banchiere. Strumenti e processi di riorganizzazione dello stato aragonese", in G. Rossetti (a cura di), *Spazio, società, potere nell'Italia dei Comuni*, (Liguori, Napoli, 1986), p.264.

<sup>21</sup> Like Gaeta-Palmieri and Colapietro di Penne, *ibid.*, p.269.

<sup>22</sup> A. Silvestri, "Sull'attività bancaria napoletana durante il periodo aragonese" in *Bollettino dell'Archivio Storico del Banco di Napoli*, n. 6 (1953), pp.86 et seq.

<sup>23</sup> Del Treppo, "Il re ecc", *op.cit* p.267.

<sup>24</sup> According to Silvestri, the Genoese bankers in Naples in the first forty years of the sixteenth century were twice as many as the Florentine and Catalan bankers. Cf Silvestri, "Sui banchieri pubblici napoletani nella prima metà del Cinquecento" in *Bollettino dell'Archivio Storico del Banco di Napoli*, n. 2 (31 dicembre 1950), pp.22-30.

<sup>25</sup> *Ibid.*, p.30.

<sup>26</sup> *Ibid.*

3. What paved the way to change were the events in which the Kingdom of Naples was involved after 1535. Up till then, although it was engaged in military conflicts, especially against France, the Court of Madrid had not pressed for excessive amounts of financial aid, even though it is true that after 1520 the requests for such aid became more frequent and the amount of money remitted from Naples to places ordered by Madrid increased.<sup>27</sup> From 1535 onwards, two factors brought about a change in the country's financial and credit structure. The first were the wars, including the Tunisia campaign, which Spain found itself caught up in,<sup>28</sup> and which due to the remoteness of the places in which the battles were being fought required substantial funding, to which Neapolitans were called upon to contribute. The other factor was the succession of agricultural crises which obliged the authorities to import large quantities of cereals.

Both factors weighed heavily on the government's budget and the latter was forced to increase its ordinary and extraordinary revenues and to extend the national debt through the capitalisation of the taxes levied on the towns as well as on trade, consumer goods and on several juridical services, at the current market rate.<sup>29</sup>

The first signs of a serious agrarian crisis were evident in 1534<sup>30</sup>; the crisis continued in the subsequent years but became acute in 1539 and 1540. The worsening of the crisis affected not just the Kingdom of Naples but almost the whole of Europe. The

<sup>27</sup> L. De Rosa, *Il Mezzogiorno spagnolo tra crescita e decadenza*, (Il Saggiatore-Mondadori, Milan, 1987), pp.13 *et seq.*

<sup>28</sup> The 1535 expedition in Algeria and Tunisia, the worsening of tension from 1536 to 1538 with the second war against France, which led to Spain's annexing the Duchy of Milan, the new expedition against Algeria in 1541 and above all the third war against France from 1542 to 1544, which ended with France definitively renouncing all claims to the Kingdom of Naples.

<sup>29</sup> L. De Rosa, *Studi sugli arrendamenti del Regno di Napoli*. Aspetti della distribuzione della ricchezza mobiliare nel Mezzogiorno continentale (1649-1806), (L'Arte Tipografica, Napoli, 1958), pp.95 *et seq.*

<sup>30</sup> P. Museffilo to the Duke of Florence (Napoli 10 gennaio 1540 in *Narrazioni e documenti sulla Storia del Regno di Napoli dall'anno 1522 al 1667*. Raccolti e ordinati con illustrazioni da F. Palermo, (Viesseux, Firenze, 1846), p.101.

price of grain rose out of all proportion and as a result of speculation Naples was overtaken by "penury and wretchedness"<sup>31</sup>, despite the fact that all licenses and orders for grain exports had been suspended. The famine brought suffering and bereavement to the population and despite the arrival by sea of grain cargoes from Apulia and Sicily, the fear was such that "everyone continued to keep in low spirits, worrying about the famine for the year to come since it [did] not rain and the crops [were] all burnt". At the end of 1540 it was acknowledged that "bread [could] not always be found".<sup>32</sup> And the famine continued into April 1541.<sup>33</sup>

The agricultural crisis had negative effects as much on trade as on social life. It caused a contraction in liquidity which not only pushed the price of money up but also led to bankruptcies among bankers. The high price of money in turn led to the spread of usury which was by no means a new phenomenon in the Kingdom if we consider the *Prammatica De Usuraris* issued in 1536, renewing the one issued by Frederick of Swabia.<sup>34</sup> Three years later in 1539 in the throes of the agricultural crisis, a pawn shop, Monte di Pietà, was founded through the initiative of private benefactors, to help alleviate the conditions of the less fortunate.<sup>35</sup>

<sup>31</sup> Pietro Musefilo wrote to the Duke of Florence, Naples 17 March 1540 that in the last 5-6 days "no types of bread at all were to be found to buy...." *ibid.*, p.107.

<sup>32</sup> Musefilo to the Duke of Tuscany, 28 March 1540, *ibid.* p.107-

<sup>33</sup> Musefilo to the Duke of Tuscany, 29 April 1540, *ibid.* p.114.

<sup>34</sup> Cf. D.A. Varius, *Pragmaticae, Edicta, Decreta, Interdicta Regiaeque Sanctiones Regni Neapolitani*, (Cervoni, Napoli, 1772), vol IV, pp.305-306; cf. also *Sommario, per ordine di anni, delle Prammatiche più notevoli nel Regno, ai tempi della Viceregganza di D. Pietro di Toledo, secondo si leggono nelle Prammatiche del Regno in Narrazioni e Documenti...ecc., op. cit.*, p.143.

<sup>35</sup> A superficial interpretation by some historians have linked the growth of usury and the creation of *Monte di Pietà* to the expulsion of the Jews from the Kingdom decreed on 10 November 1541. First of all the Neapolitan Parliament asked not to expel them, secondly we should point out that usury stemmed from the scarcity of capital due to the drain of money reserves towards Spain, the Church for its possessions in the Kingdom, Genoa and other trading and financial powers which had interests in the country. The expulsion of the Jews was the means used by the Viceroy Don Pedro of Toledo to weaken and humble the Neapolitan aristocracy which was hostile to his rule. As it was greatly indebted to the Jews and as the latter were forced to leave the Kingdom within four months from



Figure 2

During the agricultural crisis the government was moreover forced to import large quantities of grain. This worsened the balance of payments' situation which could only be met by sending ready cash abroad. Yet the deficit continued to grow since the Kingdom had to send new financial aid to Madrid for the war against France and the campaign in Africa. Meanwhile Turkey sought to exploit the situation to its own advantage. With more than 70 sailing ships, the Turkish fleet led by Dragut Rais had neared the coasts of Apulia and Calabria<sup>36</sup>, strengthened after the agreements concluded with France and Venice. Apart from leaving Turkey to occupy Tripoli in Rumania and Malvasia, Venice had also paid over a sum of money which made the prospects of a landing likely. That was not all. One of the most daring corsairs of his time, Red Beard, was just outside the port of Preveza along the Greek coast with 250 vessels, and it was feared that taking advantage of the return of good weather he would "make a run for it and take one of the places in Apulia".<sup>37</sup>

The impending danger alarmed the government in Naples but the Viceroyalty's proposals to expand and strengthen fortifications floundered due to the scarcity of funds. "Here there is no money to be found – wrote Musefilo to the Duke of Tuscany in January 1540 – nor is there any way of procuring some."<sup>38</sup> In this very

the date of the Notice (10 Nov. 1541) but only when they had been paid off by all their debtors, was the Neapolitan nobility obliged to liquidate at all costs, and whatever their losses, part of their possessions in order to pay back what they owed (cf. N. Ferorelli, *Gli Ebrei nell'Italia meridionale dall'età romana al sec. XVIII*, a cura di F. Patroni Griffi, Dick Peerson, (Napoli, 1990, (1° edizione 1915), pp. 228, 231 *et seq.* However in the following years several Jews were obliged to go to Naples from Rome where they had settled in order to chase up their debtors (cf. K. Stow, *The Jews of Rome*, vol 1, 1536-1551, (E. J. Brill, Leiden, 1995), p.248). Neither should we link the founding of *Monte di Pietà* in Naples in 1539 to the Jews' expulsion. The institution was set up in Rome in the same year, without the Jews being expelled. The Rome *Monte di Pietà* began to compete with the Jews' money-lending activities only in the seventeenth century, that is, a century later (cf. K. Stow, *op.cit* p. XXX).

<sup>36</sup> Musefilo to the Duke of Tuscany, 1 September 1540, *op.cit.*, pp.108, 111, 114, 123; see also L. De Rosa, "Le capitolazioni franco-ottomane tra politica ed economia nell'età di Carlo V", in *Nuova Rivista Storica*, anno LXXXV, fascicolo I, 2001, pp.61 *et seq.*

<sup>37</sup> Musefilo to the Duke of Tuscany, 10 January, 1540, *op. cit.*, p.100.

<sup>38</sup> *Ibid.*

period, Madrid was in fact urging the government to find new funds through new taxes and the sale of crown lands and revenues. In this connection, however, the *Camera della Sommaria* had concluded that there was little left to alienate.<sup>39</sup>

The wars undertaken by Charles V had only short pauses.<sup>40</sup> The Kingdom of Naples scarcely had the time to draw up accounts before other and larger requests for money were being made. Roberto Mantelli has reconstructed the annual money flow which Neapolitans were obliged to send to Madrid and to Genoa, Milan, Flanders and other places, from 1541 to 1559 and has identified 1552 as the beginning of a crescendo.<sup>41</sup> Taking account of the remittances sent to the Pope and those delivered to the foreign investors in the Kingdom and bearing in mind the amounts sent by Spain to the Viceroy in Naples for the troops stationed in Sicily, Milan and other places, Mantelli has calculated that between 1541 and 1559 about 7 million ducats went out of the Kingdom on Spain's account. The deficit in the balance of payments was on average just under 360,000 ducats annually, a considerable amount if we consider that the Government's annual ordinary revenues were worth around 1,643,000 ducats, out of which it was necessary to deduct the interest on the national debt, which was considerable<sup>42</sup>. The deficit was therefore conspicuous, so much so that to balance it, it had been necessary, in addition to raising extra revenue through benevolences, to levy new taxes and sell lands and offices and future revenues.<sup>43</sup>

The drain of specie worsened therefore and already in 1584 the Viceroy had been forced to issue a law prohibiting the export of "precious metals" from the Kingdom "in whatever form"

<sup>39</sup> L. De Rosa, *Il Mezzogiorno spagnolo... op. cit.*, pp.17-18.

<sup>40</sup> Against France (1542-1545); against the Lega Smarcalda (1547); against the Turk Dragut Rais who had occupied the small town of Aprica (today Mahdia) on the Tunisian coast (1550); against Siena (1551-1552); and then again against France (1551-1556), etc.

<sup>41</sup> R. Mantelli *Burocrazia e finanze pubbliche nel Regno di Napoli*, (Pironti, Napoli, 1981), pp.338 et seq.

<sup>42</sup> *Ibid.* p.362 et seq.

<sup>43</sup> *Ibid.* p.359; L. De Rosa, *Il Mezzogiorno spagnolo... op. cit.*, pp. 17-18.



Figure 3

because this caused “often...penury” and the Kingdom “was left without”.<sup>44</sup>

4. The first to suffer from the reduction in currency circulation were the banks which seemed to be on the point of collective bankruptcy.<sup>45</sup> And the fears that this could actually happen led the government to “make all merchant bankers in the Kingdom, of whatever nationality, deposit a surety of 50 thousand ducats within a month”.<sup>46</sup>

Moreover, the credit restrictions forced many noble and non-noble landowners who were short of cash to sell some of their property, causing the market for real estate and rents to grow. The relatively low prices were an incentive to prospective buyers. Among them, Cosimo dei Medici, the Duke of Florence, who had married a daughter of the Viceroy Pietro de Toledo, appeared to be interested in taking advantage of the favourable circumstances and wrote to his agent in Naples, Babbi, about

<sup>44</sup> *Sommario, per ordine di anno, delle Prammatiche ecc.*, cit. in “Narrazioni e Documenti” *op. cit.*, p. 148.

<sup>45</sup> Silvestri, *Sui banchieri pubblici napoletani nella prima metà del Cinquecento*, *op. cit.*, p.24.

<sup>46</sup> Francesco Babbi to the Duke of Florence, Naples 25 September 1549 in *Narrazioni e Documenti*, *op. cit.*, p.117.

<sup>47</sup> Babbi replied several months later, proposing that he should even purchase Benevento, an enclave from which the Church received nothing. This would make the Duke a feudatory of the Church which was much better than being a feudatory of the Emperor, that is Charles V. According to Babbi, once in private hands Benevento, located within Apulia, Abruzzo and Terra di Lavoro, would yield much more than 3 thousand ducats a year with its 3 thousand households, and so spending 50-60 thousand ducats for it would be a good deal (Babbi to the Duke of Florence, Naples, 13 August, 1550 in *Narrazioni e documenti... op. cit.*, pp. 134-135). Previously, on hearing that the Duke intended to purchase revenues of up to 3000 ducats, he had informed him of the offer by the owner of the flour tax in Naples to sell him the revenue definitively. The tax had been farmed out for 10 thousand ducats a year but its yields were increasing markedly. In the last three years yields had risen by 10 thousand ducats, a sign of the city's continual demographic expansion. The owner was so keen to sell that he was willing to capitalise the revenue at 6.50%, a rate which had never been recorded until then. This reduced its value to little more than 46 thousand ducats (Babbi to the Duke of Florence, Naples, 27 July 1550 in *Narrazioni e documenti... op. cit.*, pp. 134-135). Naturally the Duke of Florence was not the only one to profit from the favourable circumstances. The documents that have come to light reveal that in the same months Don Ferrante Gonzaga was getting

it<sup>47</sup>, while Ferrante Gonzaga set about buying the town of Andria.<sup>48</sup>

Two years later in 1552 the money and financial situation got even worse. The Viceroy had to pay 200 thousand ducats to the Dragut Rais so that the latter would not attack the capital, Naples, with his fleet which was stationed in the waters around Procida, an island located in the bay of Naples. The amount was drawn on the Genoese bank Ravaschieri which, however, was unable to sustain such a withdrawal and which failed amidst great clamour, causing a new crisis in financial and mercantile transactions. As a stopgap measure the Viceroy was forced to block payments on foreign bills for over a month, forbidding all protests and calculation of interest on the sums not paid.<sup>49</sup> Nonetheless, these were temporary measures which did not prevent the situation from re-exploding once the bans and prohibitions were over. This is borne out by Law III of 17 July 1553 which, in its foreword, contained the petition of the representatives of the city of Naples who complained that many banks had failed in recent years "with great damage to the said city" and especially to the "poor widows and children". The petition urged the Viceroy to increase the surety to at least 100 thousand ducats from the 50 thousand which was then demanded, "since such an amount [did] not suffice". The Bank of Citarella and De' Mari had, in fact, already acknowledged this and on its own initiative had met the new request. The petition bore fruit and the amount of caution money was increased to 100 thousand ducats.

ready to buy the town of Andria, in Apulia, which was made up of 2000 households, from the Duke of Sessa paying for it in instalments (Babbi to the Duke of Florence, Naples, 27 July 1550 in *Narrazioni e documenti... op. cit.*, pp.136.

<sup>47</sup> Don Ferrante Gonzaga, the younger brother of the Duke of Mantua, had been brought up at the Court of Charles V in the 1520s and was Lord of Guastalla in Lombardy and Prince of Molfetta in the Kingdom of Naples. He was one of the leading patrons of art and letters of his time, an expert engineer, known and esteemed as the designer and builder of fortifications. He was also one of the main advisors and agents of Charles V in Italy; he was Viceroy in Sicily from 1535 to 1546 and from 1547 to 1554 he was Governor of Milan where he had built a new and wider fortified city wall. Cf N. Soldini, "El Gobernante ingeniero: Ferrante Gonzaga y las estrategias del dominio en Italia." In C. J. Hernando Sanchez (ed.), *Las fortificaciones de Carlos V*, (Madrid, 2000), pp. 355 *et seq.*

<sup>49</sup> A. Silvestri, *Sui banchieri napoletani nella prima metà del 500... op. cit.*, vol. II., p.628.

On this occasion, however, depositors were warned that non profit banks were to be preferred to profit-making banks.<sup>50</sup> The non-profit making banks certainly included *Monte di Pietà*.

*Monte di Pietà* had in fact made considerable progress. From the 150 ducats donated by its two merchant founders, Aurelio Paparo and Leonardo di Palma, its capital had already grown in four years to 4 thousand ducats in 1543<sup>51</sup>, thanks to donations and legacies. In proportion it had widened its free-loan pawn-broking transactions as well as its large-loan pawn-broking business on which it charged an interest rate of 6.50% to cover expenses, following the decision of the *Concilio Lateranense* in 1517 on *Monti di Pietà*'s behalf<sup>52</sup>. Above all, supported by the Church and the Viceroy<sup>53</sup> Don Pedro de Toledo, *Monte* had begun to receive deposits in return for which it issued certificates or *fedi of credit* for the corresponding sum. These deposits began to arrive with increasing frequency and for increasingly larger amounts as the number of liquidations and bankruptcies rose. Savers were thus encouraged to deposit their savings at *Monte* whose solidity appeared beyond question.

While efforts were made to safeguard depositors from banking risk, the reduction of money in circulation had speeded up the process of coin sweating. "Good money" had disappeared from circulation and there was only bad money. According to contemporaries the money that did circulate was "broken and confused and not a little false", so much so that in 1552 the Viceroy

<sup>50</sup> Cf *Prammatica III*, issued 17 July 1553. Cf *Varius... op. cit.*, vol II p. 628-

<sup>51</sup> R. Filangieri, *I Banchi di Napoli dalle origini alla costituzione del Banco delle Due Sicilie (1539-1808)*, (Napoli, Banco di Napoli, 1940), p.36.

<sup>52</sup> *Ibid.*, p.38

<sup>53</sup> On 31 July 1549 the Viceroy had granted *Monte* the faculty of special creditor above all others up to an amount of 4 ducats lent on pledge, an amount which was increased to 10 ducats on 26 July 1573 by the Viceroy Granvelle. Meanwhile with a bull of 1551, Pope Julius III had ordered excommunication for anyone guilty of defrauding him and in 1552 he was assigned an annual income of 40 ducats belonging to an abandoned Neapolitan charity institution. For his part, with a *breve* of 1559, Pope Paul IV issued indulgences to anyone who gave a donation to *Monte* in the following three years, a *breve* which was confirmed by the same Pope and again by Gregory XIII in 1578 and 1581. (Filangieri, *op.cit.*, p.40).

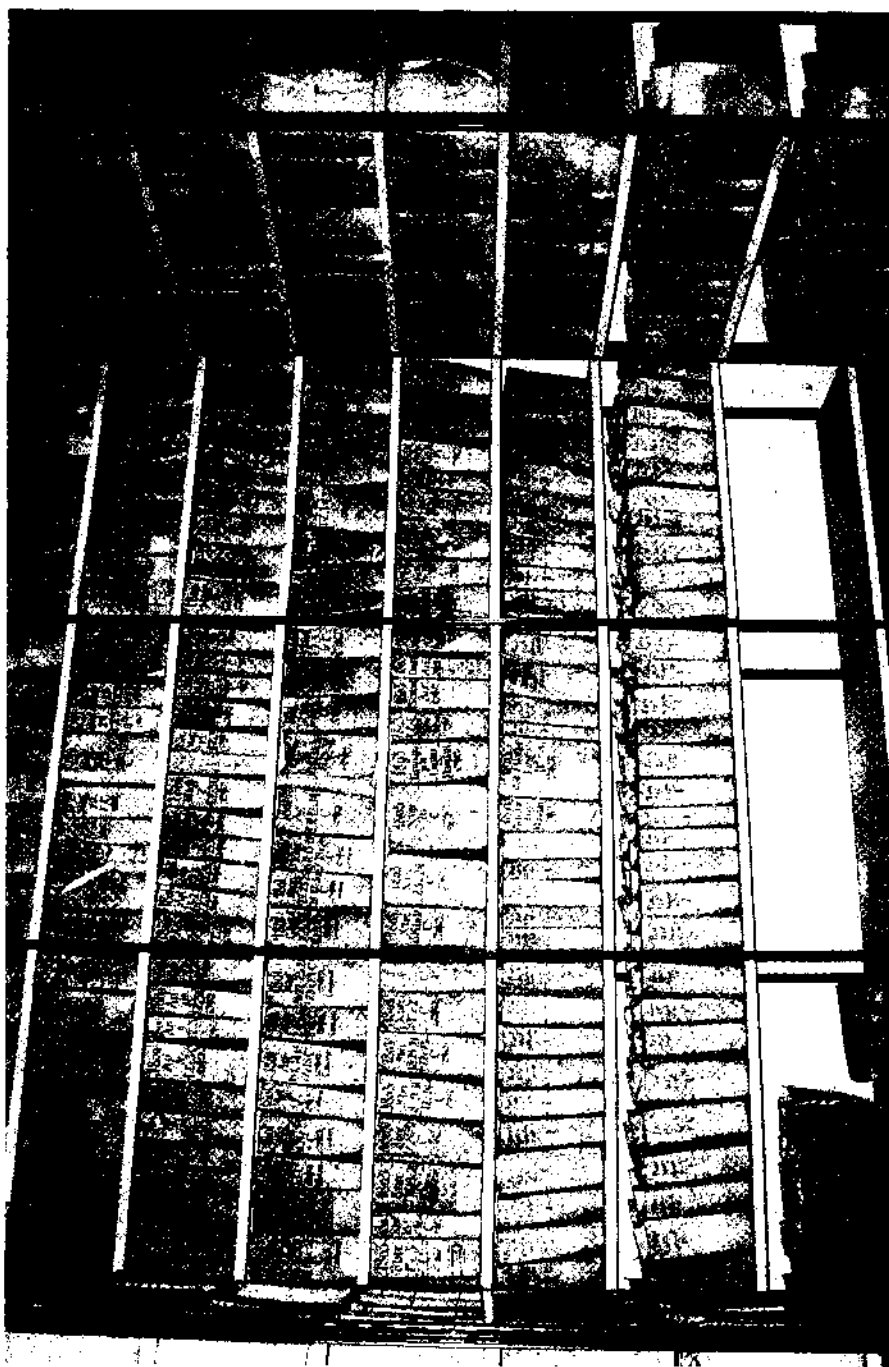


Figure 4

had ordered that money should be valued by its weight and not by its legal value.<sup>54</sup> In 1554 the new Viceroy, Cardinal Pacheco, demanded a contribution from the towns and feudatories to compensate *Monte* for the loss of over 29 thousand ducats sustained as a result of coin clipping.<sup>55</sup> *Monte*, that is, had received deposits for money which afterwards turned out not to correspond to its legal value owing to widespread coin sweating.

5. The situation worsened a few years after Philip II's accession to the throne, when there were increases in both ordinary and extraordinary taxation: this latter amounted to an annual average of 100,000 ducats between 1502 and 1534, but had increased to 326,000 ducats between 1535 and 1564, and to 600,000 ducats after 1564<sup>56</sup>. Greater fiscal pressure and the increase in the amount of silver coins being sent abroad worsened the currency situation; coin-sweating became more widespread and the situation deteriorated<sup>57</sup> so much that in 1563 the Viceroy decreed that every bank be provided with a "weigher" whose job was to weigh the coins that were deposited or paid out and to cut those coins which contained less silver than the quantity established<sup>58</sup>. However, this measure did not allay fears about the banks' solidity. These fears were so widespread that in 1556 the Viceroy ordered the banks to deposit 150,000 ducats caution money instead of the 100,000 ducats hitherto deposited. And, even later when new banks were unable to pay the established sum of caution money, the Viceroy repeated this order in 1574, forcing defaulters to close their businesses.

<sup>54</sup> D.A. Parrino, *Teatro eroico e politico de' Governi de' Viceré del regno di Napoli dal tempo di Ferdinando il Cattolico fino al presente*, (Gravier, Napoli, 1770), vol. 1, p.127.

<sup>55</sup> L. Bianchini, *Storia delle finanze del Regno di Napoli*, a cura e con introduzione di L. De Rosa, (E.S.L., Napoli 1971), p.310.

<sup>56</sup> L. De Rosa, *Il Mezzogiorno spagnolo... op. cit.*, p.16.

<sup>57</sup> A. S. N., *Camera della Sommaria, Consulte*, vol. 2, pp.55 *et seq.*

<sup>58</sup> A. Silvestri, *Sui banchi pubblici napoletani dall'avvento di Filippo II al trono alla costituzione del monopolio*, in *Bollettino dell'Archivio Storico del Banco di Napoli*, n.3 (30 June 1951), p.2 *et seq.*

In order to combat coin-sweating and forgery and, at the same time, to increase the amount of currency in circulation, the Viceroy had, through the Genoese bankers, stocked up with silver to mint other coins. Importations of silver and the minting of new coins took place in 1542, 1552, 1554, 1572, 1573, 1582 and 1583<sup>59</sup>. That is to say, in a continually accelerating sequence, which shows that the coins minted and not sweated went abroad after a period of time, leaving the currency conditions unchanged, while the state was burdened with the debt incurred for the importation of silver- and this when the price of silver had continued to increase during the sixteenth century. One pound of silver, which cost 8.635 ducats in 1503, cost about 10.5 ducats in 1550 and remained at this price until 1610. That is to say, silver had increased by about 22%. This increase did not affect the ratio between pure silver and alloy which remained constant throughout this period. Nor did the increase affect the weight, because, over the succession of mintings, the *carlino* was reduced by 0.61 grams: all things considered a relatively meagre difference. But the increase in the price of silver did have repercussions on the expenses the state had to meet in order to supply the mint with the silver necessary to mint the coins<sup>60</sup>, an expense which continued to rise.

The growing flight of silver coins from the Kingdom of Naples and the increased costs of importing silver account for the Viceroy's government's granting currency value to the *fedi di credito* (deposit receipts) issued by the *Monte*. The *fedi di credito* were - it has been said - credit certificates issued by *Monte di Pietà* according to the deposits received. The Viceroy granted these certificates the privilege of being used for payments of any kind to the state. And

<sup>59</sup> G. D. Turbolo, *Breve relazione di diverse qualità di monete, costrutte nella Regia Zecca di Napoli in diversi tempi, cominciando dall'anno 1542*. With at the end a summary of the quantity and quality of the coins minted and put in circulation from 1589 to 1629, in L. De Rosa (ed.), *Il Mezzogiorno agli inizi del Seicento*, (Laterza, Rome - Bari, 1994), pp. 259-260.

<sup>60</sup> *Ibid.*, pp.259-260

since these credit certificates, or *fedi di credito*, were authorised to circulate by means of endorsement, their circulation, because of the privilege granted to them, could expand and take the place of the metal coinage that was leaving the country. Currency that had production costs which tended to increase was substituted by currency with almost zero costs<sup>61</sup>.

Prammatica III of 1553 shows that there were some non-profit banks and that the Prammatica had recommended savers to choose them for their deposits. From that time the number of *fedi di credito* the Monte issued had increased, and they circulated, albeit in a limited circuit, alongside gold and silver coins. *Monte di Pietà* paper was increasingly preferred to that of private banks. But in the 1580s, when it was given the privilege of being accepted as ready cash in payments to be made to the state, the paper took on the characteristics of proper legal tender. All the more so as the measure that sanctioned the privilege acknowledged that the *fede di credito* could be issued to and paid to the illiterate as well, provided a public notary had legitimised the sign they made on the certificate. The privilege granted to *Monte di Pietà* facilitated not only the issuing of its paper, but also its circulation. This allowed the Monte to benefit from the extended periods in which its *fede di credito*'s circulated, allowing it to invest some of the deposits it had gathered in public revenue, state or capital purchases - the only purchases it was allowed to make.

6. The presence of *fedi di credito*, instead of ready cash, was no novelty in Neapolitan commercial transactions. Gradually as the number of coins in circulation diminished, the so-called private banks (of which the most important and most numerous were the

<sup>61</sup> L. De Rosa, "De la moneda de metal al papel moneda (Cartas de credito) en el Reino de Napoles: el papel de los bancos publicos" in A. M. Bernal (ed.), *Dinero, Moneda y Credito en la Monarquía Hispanica*. Actas del Simposio Internacional "Dinero, moneda y credito. De la Monarquía Hispanica a la Integración Monetaria Europea", Madrid, 4-7 de May de 1999, (Marcial Pons, Ediciones de Historias - Fundación ICO, Madrid, 2000), pp. 665 et seq.

Genoese, followed by the Florentine and, at a distance, by the Milanese, Catalan and Neapolitan banks) had ceased to pay in cash their depositors' payment orders (policies, orders, etc.). The mechanism devised was very simple. When the depositors went to the bank where they had deposited their capital in order to draw it, they were given a bill to be paid by another bank and so on; in this way they were unable to draw the cash to which they were entitled. This went on for years, and was so widespread that in 1579 the Viceroy of the time, Don Juan de Zuñiga, acknowledging the protests which came from several parties, decreed very severe fines every time a payment was not made in cash and the system of issuing policies on another bank was resorted to<sup>62</sup>. All the more so as, unlike those of *Monte di Pietà*, the *fedi di credito* issued by the private banks did not enjoy the privilege of being used in payments to the state.

*Monte di Pietà* profited not only from these circumstances, but also by the fact that many private banks, especially Genoese banks, between the 1550s and the 1570s, had reduced their activity<sup>63</sup> as a consequence of both the suspension of state payments in Spain and in Naples<sup>64</sup> and, more generally, "the difficulties that characterised politics and society in Genoa in the 1570s"<sup>65</sup>. It is a fact that in the late sixteenth century, in Naples as elsewhere, for example in Castile, Genoese investors appeared increasingly interested in obtaining security for their investments<sup>66</sup>. A great deal of capital was, in fact, withdrawn from commercial speculation and used to purchase government stock, whose yield was notably higher, given the increasing request for loans which the wars in which Spain was involved demanded<sup>67</sup>.

<sup>62</sup> Varius, *op. cit.*, vol. II, p.628.

<sup>63</sup> A. Silvestri, *Sui banchieri napoletani nella prima metà del 500*, *op. cit.*, p.20 et seq.

<sup>64</sup> F. Braudel, *Civiltà e imperi nel Mediterraneo nell'età di Filippo II*, (Einaudi, Turin, 1953), pp.532-533.

<sup>65</sup> A. Calabria, "Finanzieri genovesi nel Regno di Napoli nel Cinquecento", in *Rivista Storica Italiana*, year CI, number III (1989), p.608.

<sup>66</sup> *Ibid.*, pp.592 et seq.

<sup>67</sup> *Ibid.*, p.605 et seq.



The deposit and the investment activity of *Monte di Pietà* was continually expanding. However, in Viceroyalty circles it still did not possess the official status of a fully fledged bank. In 1574, the Viceroy A. Perrenot de Granvelle divulged a letter from Philip II which expressed the need for a single bank to be created in the Kingdom of Naples, with the functions of a state bank, to act as a treasury and above all to grant the Court loans with advantageous conditions, providing full security for deposits<sup>68</sup>. In the light of what happened in the following year, 1575, with the suspension of state payments in Spain and in Naples, the project reflected the difficulties and the financial worries that beset Philip II, who was forced to pay high interest rates for the loans which he needed urgently, interest rates that by now had reached 19%. But nothing was done about the project. Silvestri implies that it was the Viceroy himself, to prevent the implementation of the project, who urged the reopening of the bank that Giacomo Ravaschieri had closed a few months previously<sup>69</sup>. But evidently Philip II did not abandon the idea, because the project was taken up again a few years later, in 1580, by the Viceroy Don Juan de Zuñiga, Count of Miranda.

Through a court notary, on 4 June 1580, the Viceroy and some bankers, for the most part Genoese<sup>70</sup>, agreed to an accommodation: four of the city of Naples' banks pledged to purchase, at the reduced rate of 8%, the approximately 360,000 ducats of government stock and to loan the Court every year for 20 years 400,000 ducats at a rate of 10%. In exchange, the Viceroy pledged to establish a monopoly regime in the four banks' favour. It was agreed that until 1600 no bank could operate in Naples except the four above-mentioned banks and *Monte di Pietà*, which had been

<sup>68</sup> Philip II's letter is quoted in its original language in A. Silvestri, "Sui banchieri pubblici nella città di Napoli dalla costituzione del monopolio all' fine dei Banchi dei mercanti", in *Bollettino dell'Archivio Storico del Banco di Napoli*, n.4 (31 December 1951) pp.1-2.

<sup>69</sup> *Ibid.*, p.2.

<sup>70</sup> i.e. Bernardo Olgiati; Agostino and Gironimo Grimaldi; Nando and Luca Citarella and his partner Liberato de Rinaldo; Leonardo Calamassa and his partners Fabrizio and Scipione Pontecorvo.

in existence since 1539. It was also established that the bankers Turbolo and Caputo, Cimmino, Genovese, Casola, Vaccaro and Borrello; Leone and Bonaventura were not to issue *fedi* for the monies deposited with them, nor were their *fedi* to be accepted as legal documents. Lastly, the Composta and Corcione Bank and the Solari Bank had to close in 1580. In the case of postponement, these banks, too, were to stop issuing *fedi*, except for sums which they effectively owed and with validity limited to the year 1580. Bankers who were excluded from operating in Naples had permission to open banks in Monteleone (Calabria), Aquila, Barletta, Foggia, Cosenza and Lecce - but in Cosenza and Lecce only if no other banks operated. In addition, the government would not allow the founding of other banks elsewhere in the Kingdom of Naples, except at Bari and at Foggia<sup>71</sup>. However, the project as drawn up did not find favour with Philip II, who, one month later, in July 1580, wrote to the Viceroy to point out the project's unsuitability at that time.

7. It is difficult to say whether this judgement was a product of the Court or whether it was the result of the appeal the seven excluded banks sent to the King in Madrid, protesting against their exclusion from banking activity; an appeal which they reinforced with the offer of loans with advantageous conditions. The fact remains that, on 31 October 1580, Philip II ordered his representative in Naples, the aforementioned Viceroy, to restore "the city's banks to the former number of eleven, on condition that they offered the Court, at 6.5%, annual loans of 300,000 ducats, and that annual loans of 100,000 ducats were offered all told by the banks of the other cities of the Kingdom". According to Silvestri's reconstruction, the Viceroy did not implement the King's order and, with various explanations, he tried to ensure the existence of the monopoly which had been formed. But the King did not seem willing to yield: he repeated that he disagreed,

<sup>71</sup> *Ibid.*, pp.2-3.



pointing out how a restoration of the *status quo ante* was much more advantageous to the state, given that the eleven banks were offering loans at 6.5% and the monopoly loans at between 8% and 10%, not to mention the damage the monopoly would have caused regarding prices and interest rates: this was borne out by the fact that, in the few months since the monopoly had been functioning, the cost of money had increased considerably. And since the Viceroy still appeared hesitant to backtrack, Philip II followed up this letter of 6 March 1581 with another on 17 July: this time his letter was more peremptory, stating that the monopoly had to cease by August, with no possibility of an extension. Which did in fact happen<sup>72</sup>.

The collapse of the planned monopoly permitted the eleven banks threatened with closure to reopen, but also permitted the opening of other banks. For example, the bank owned by L. Vollaro and G. G. Composta, in association with G. V. Del Solaro, was opened in 1582<sup>73</sup>, and the bank owned by G. Talani was opened in 1589<sup>74</sup>. But above all the collapse of the planned monopoly prompted other institutions and religious institutions, which had seen the advantages *Monte di Pietà* had obtained from banking activities, to exert pressure on the Viceroy also to grant them permission to issue *fedi di credito* with the privilege of being received in payment by the state. The first was *Casa Santa della SS. Annunziata di Napoli*, a hospital and foundling hospital operating in Naples since the fourteenth century: in 1587, claiming that it had issued *fedi di credito* since the fifteenth century, it requested that the privilege enjoyed by *Monte di Pietà* be extended to its own charter<sup>75</sup>. Two years later, in 1589, another ancient Neapolitan hospital, *Casa Santa degli Incurabili*,

<sup>72</sup> *Ibid.*, pp.5-6.

<sup>73</sup> For example, the bank owned by L. Vollaro and G. G. Composta, in partnership with G. V. del Solaro, was opened in 1582; G. Talani's bank was opened in 1589; cf. Silvestri, *Sui banchieri pubblici nella città di Napoli*, p.3.

<sup>74</sup> *Ibid.*, p.12.

<sup>75</sup> *Ibid.*, p. LXXVI.

requested and obtained, like SS. *Annunziata*, authorisation to act as a public bank<sup>76</sup>, and so the *Banco del Popolo* began its life. Similar permission was granted in 1591<sup>77</sup> to *Conservatorio dello Spirito Santo*, which gave shelter and an education to young girls from dubious backgrounds. In the same year, 1591, the ancient *Casa Santa e Ospedale di S. Eligio al Mercato*, dating from the thirteenth century, also began its banking activity also, with the same privilege<sup>78</sup>. In 1597, *Ospedale dei SS. Giacomo e Vittoria*, an institution which had sprung up for the Spanish community and the Spanish soldiers resident in or passing through Naples, began its banking activity with the same privilege<sup>79</sup>. Lastly, in 1600, *Monte dei Poveri*, founded on the initiative of magistrates, lawyers, public notaries and registrars to make loans against security to prisoners, began its banking activity<sup>80</sup>. So that by 1600, public banks, the off-shoots of religious institutions (*Monti di Pietà*, hospitals or refuges), had become seven, located in the various districts of the city, which by now had a population of more than 225,000 inhabitants and was the second most populous city in Europe, Paris being the most populous.

8. The rise and growth of the seven public banks took place while the private banks disappeared. At the beginning of the seventeenth century, private banks no longer operated in Naples: they had gone bankrupt or had been wound up because of the obvious impossibility of making public loans, which proved increasingly risky as was seen in the Spanish government's bankruptcies. Only the public banks, which should have made loans only to the state and to the city of Naples, remained on the market. However they soon made loans to individuals, too, using various devices to hide the fact that their actions were not in

<sup>76</sup> *Ibid.*, p. XCIC.

<sup>77</sup> *Ibid.*, pp. CII-CIII

<sup>78</sup> *Ibid.*, p. CIV-CV

<sup>79</sup> *Ibid.*, p. CV

<sup>80</sup> L. De Rosa, *Le origini curialesche del Banco dei Poveri*, in *Il Mezzogiorno spagnolo...* *op. cit.*, pp.110 *et seq.*

keeping with the regulations of their statute and openly issuing *fedi di credito*. They thus facilitated the purchasing of land, buildings, raw materials, durable and non-durable goods; in short, production and non-production transactions.

Without appearing to boast, I believe I was the first person, and Ruggiero Romano has acknowledged this<sup>81</sup>, to recognise that it was the super credit supplied by the banks that was really responsible for the Neapolitan boom between 1619 and 1622; in the Kingdom of Naples, *Banco dei Poveri* was the boom's most active instigator. Its issues, especially its bad issues, increased almost exponentially. However, the other public banks were just as bad<sup>82</sup>. Paper money came to take the place of metal coins which, moreover, already in September 1620 had been found to be "reduced in such wretchedness with the ruin of the Kingdom"<sup>83</sup>. To adjust the coins to the rate of inflation in the Kingdom of Naples, the government took steps to devalue them on several occasions, officially by about 30% between 1617 and 1621.

Inflation did not last because the combined interests of the holders of rents, income and pensions in cash forced the Viceregal government to restore the value of the ducat, going against the opinion of the government in Madrid. With the minting of the new coin at its former value in 1622, there was a sudden and violent deflation which plunged banks and trading into depression. When the Viceregal government restored the Neapolitan ducat to its former value, it did not consider that the price of silver had increased and that, by maintaining unaltered the ducat's parity with the coins minted in Rome, Genoa and Florence, all of which had been devalued, owners of these currencies were given the opportunity to buy Neapolitan coinage,

<sup>81</sup> R. Romano, *L'Europa tra due crisi (XIV-XVII secolo)*, (Einaudi, Turin, 1980), p.139

<sup>82</sup> L. De Rosa, *Il Banco dei Poveri e la crisi del 1622* in Idem, *Il Mezzogiorno spagnolo... op. cit.*, pp. 128 et seq; C. Di Somma, *Il Banco dello Spirito Santo dalle origini al 1664*, (Napoli, 1960), p.89.

<sup>83</sup> *Narrazioni e documenti ... op. cit.*, p. 283.

...to al ...  
 ...inguarda, mda di ...  
 ...centocinquanta convenuti ...  
 ...in cui si cominciò dal ...  
 ...le acque dalla Molina di S. Benedetto  
 ...amato di Amiglino, altri ...  
 ...con altro ...  
 ...l'altra metà de ...  
 ...sopra delle acque ...  
 ...Raro di ...  
 ...Archiceto D. ...  
 ...nuovo acquedotto, e ciò in Virtù  
 ...luglio 1773

...di Napoli  
 ...  
 ...  
 ...  
 ...  
 ...  
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 ...  
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An example of a fede di credito (dated 6 July 1773).

thereby making large profits and further weakening the currency of the Kingdom of Naples.

At first, the fall in prices did not seem true to the people of the time. "Extraordinary effects are to be seen" - wrote someone in March 1622 - "because the price of everything is halved, and the price of food reduced even more". In fact, after having remained hidden for fear of bad currency, food was now flooding the market<sup>84</sup>. However, this was only the first impression.

A few days later, grumbling began. Already by mid-March, shopkeepers were finding that the days passed "poorly and with no money because of this change in coinage". But the grumbling was destined to increase. One month later "money difficulties" were even more obvious, and "nothing else was talked about". The following year, after the public banks had gone through difficult times and had been saved from bankruptcy by the moratoria granted them, their situation began to be questioned. They owed three million ducats and had cash for only one and a half million ducats, a consequence "precisely of the damage caused by the coinage". Two years later, in January 1625, "the universal damage caused by the renovation of the coinage" was still being denounced, and it was added that "some for one reason, some for another, everyone (had) lost a great deal, a very great deal".

The depression lasted at least until 1629, and an economist of the time, G. D. Turbolo, defined the years of growing inflation, from 1616 to 1622, the "fat cow" years, and the years from 1623 to 1629 the "lean cow" years<sup>85</sup>.

The Viceregal government tried to pull the Neapolitan economy out of the depression by stimulating investments and consumption. And to put this policy into practice, it came up with nothing better than to consider the possibility of authorising public banks the faculty to issue *fedi di credito* to private citizens, without having received the corresponding deposit. Such loans were forbidden

<sup>84</sup> *Ivi*, p. 293.

<sup>85</sup> G. D. Turbolo, *Copia di quattro discorsi. Discorso II* in L. De Rosa (ed.), *Il Mezzogiorno agli inizi del 600*, cit., p.285n.

by the statutory regulations of every Neapolitan public bank. The problem was presented to the *Giunta dei Banchi* (Banking Council), which, after much debate, in 1628 agreed, on the authority of the famous jurist Navarro, that "it was legitimate and advantageous to the Republic" to grant loans "to private citizens and at a time of such bad fortune".<sup>86</sup>

It is probable that the recovery which began to make itself felt during 1629 was due in part to the extension of credit. However, the worsening of the situation caused by the Thirty Years War and the Madrid government's growing pressure on the Kingdom of Naples to increase its aid contributed to a further increase in the national debt<sup>87</sup>, and were responsible for another larger outflow of gold and silver coins, as had happened with most of the approximately 13 million ducats minted between 1599 and 1629<sup>88</sup>.

The reduction in liquidity placed the public banks in a difficult situation in the 1630s since they found themselves between two lines of fire: on the one hand the deposit holders who needed to withdraw part of their savings to cover their needs, and on the other hand the government which was under pressure from Madrid to draw on those very deposits for the purpose of sending funds to the war fronts. The first public bank to encounter difficulties was *Banco del Popolo*. This was the bank in which the City of Naples deposited its revenues but which it also used for its expenditure. Unfortunately the latter had continued to rise, well exceeding the City's revenues. Before long the situation got out of hand and it

<sup>86</sup> Escorial, *Biblioteca*, V Zarc., Mss, ESC, III, pp.183-188. The "Jurist" Navarro, one of the most authoritative exponents of the "Salamanca School", also known as Martin de Azpilcueta, a Dominican (1493-1586), was sent by Charles V to Coimbra (Portugal) to be Rector of the University. He spent the last years of his life in Rome where he was counsellor to three Popes and where he died at the age of 93. Cf H.W. Spiegel, *The Growth of Economic Thought*, (Duke University Press, Durham, N.C., 1971), pp.88-89; and especially M.N. Rothbard, *Economic Thought before Adam Smith*, *op. cit.*, pp.105-109.

<sup>87</sup> L. De Rosa, *Il Mezzogiorno spagnolo... op. cit.*, pp.166 *et seq*

<sup>88</sup> G. D. Turbolo, *Riassunto della quantità e qualità delle monete battute e liberate nella Regia Zecca di Napoli dall'anno 1599 per l'anno 1629*, in L. De Rosa (ed.), *Il Mezzogiorno agli inizi del '600*, *op. cit.*, pp.265-266.

was necessary to close the Bank for several days and to reopen it later only to pay 10% on the large deposits<sup>89</sup>, in order to avoid its collapse.

News of the bank's predicament was reported on 10 January 1634. A week earlier, on 3 January, it was not the City but the government which had unintentionally threatened to bring down the public banks' whole system. "Suddenly and through an act of absolute power – as was noted by the Venetian resident in Naples [the Viceroy] took 150 thousand ducats from these banks" arousing understandable fears among deposit holders on account of the way the withdrawal had been made. Many of them "quietly withdrew their capital" and it was clear that, had the action been more generalised, "the banks would have run their course and that would be the end of credit."<sup>90</sup> The prospects must have worried the Viceroy and his advisors and for a while other ways were sought to procure the funds demanded by Madrid. But when the demands were repeated and became insistent the Viceroy was forced to turn to the public banks again. Thus, in August 1635, he sought to obtain new loans from the banks, offering in exchange the only thing he had left to sell: government stock. However the operation was by no means easy. The market for government stock was glutted and its value was rapidly falling so, rather than buying, many people were trying to sell off what they had even with a loss of 30-40% of their capital.<sup>91</sup>

The banks' reluctance to buy government stock forced the Viceroy, who continued to be pressed by Madrid for funds, to withdraw directly from them without offering anything in exchange. When news of the operation was made public, it caused a run on

<sup>89</sup> M. Gottardi (ed.), *Corrispondenze diplomatiche veneziane da Napoli, Dispacci*, vol. VII, 16 novembre 1632-18 maggio 1638, (Poligrafico dello Stato-Istituto italiano per gli studi filosofici, Roma-Napoli, 1991), pp. 165-166. Hereafter, *Dispacci*; cf also *Narrazioni e documenti... op. cit.*, p.309.

<sup>90</sup> *Dispacci, op.cit.*, pp.163-164.

<sup>91</sup> *Ibid.*, p.292.

the banks. “Unexpectedly”, wrote the Venetian resident, “one day such large amounts of cash were taken from [deposit-holders]” that the Viceroy was forced to put up a written declaration in all the banks in which he promised “he would not take over any more deposits”. The declaration was necessary and could not be deferred since without it “all [the banks] [would have failed] and all transactions[would have] stopped”<sup>92</sup>. However it was not a promise that could be kept indefinitely. Just over a year later, on 23 September 1636, in order to meet the demands of the Court of Madrid and being unable to find other forms of income, the Viceroy made *Banco di San Giacomo* and *Banco di Sant’Eligio* hand over to him large amounts against assignments which were not forthcoming and brought the banks to the verge of bankruptcy. In order to save them he was obliged to suspend payments for 15 days<sup>93</sup>. Meanwhile, apart from further increases in the rate of already-existing taxes, new taxes were levied which, if they were to provide a substantial revenue<sup>94</sup>, had to be raised on the most common and widespread consumer articles, thereby increasing general discontent and hardship. At the same time the Viceroy did not refrain from tampering with the public banks’ specie reserves, although not being able to withdraw all their funds he sought other means of finance and in January 1638 he tried to involve *Banco dell’Annunziata* – the only bank which appeared to be “well-off, well governed and of the highest credibility” – in the creation of an institute which, without the obligation to pay back the capital laid down for its constitution, would be able, on the one hand, to guarantee its shareholders an interest of 5% and on the other to enable the “King to draw on the money of his [subjects] and of [foreigners] in large amounts”<sup>95</sup>. Although nothing came of any of this, the Viceroy continued to seek out other possibilities for obtaining funding. This gave rise in 1640 to the creation of an eighth

<sup>92</sup> *Ibid.*, p. 294.

<sup>93</sup> *Ibid.*, p.389.

<sup>94</sup> L. De Rosa, *Il Mezzogiorno spagnolo... op. cit.*, pp.169 *et seq.*

<sup>95</sup> *Dispacci, op.cit.*, pp. 506-507.

public bank, this time not connected with any charitable institution but with private entrepreneurs: the tax farmers for flour consumed in Naples. This was a tax that moved huge amounts of capital and so was useful in the setting up of an important bank which could then lend hefty sums of money to the state. And so the Viceroy began to draw cash from the newly-founded *Banco del SS. Salvatore* and send it to where war was being waged. It should be borne in mind that merely between 1631 and the first half of 1644 another 12 million ducats left the Kingdom of Naples for destinations indicated by Madrid<sup>6</sup>. The liquidity of the public banks - all eight of them - dwindled to a very small percentage, to the point that, in 1647, at the time of Masaniello's rebellion, the public banks had fallen into difficulties and were destined to certain bankruptcy. But could the Viceregal government abandon them to their fate, after the *fedi* they had issued were in the hands of a very broad sector of the population, especially after the Viceregal government for decades had encouraged the crediting and issuing of these *fedi*? Could it abandon them after they had enabled the government to reduce the purchasing of precious metals abroad and help curb the rising trend in the national debt, particularly since the banks had come to the government's aid without demanding very much at all? And could the government give up an institution which almost entirely obeyed the government's wishes, and especially when there was no one else ready to provide the government with what it needed? It just could not abandon the public banks.

Wars and the increase in the price of gold and silver, for a country which had no precious metal mines, had forced the Kingdom of Naples, ahead of other countries, to a turning-point in monetary history. Since then the world has seen the continual disappearance of gold and silver coins from circulation, and their replacement by paper, providing trade with an intermediary which cost, and still costs today hardly, anything at all.

<sup>6</sup> L. De Rosa, *Il Mezzogiorno spagnolo... op. cit.*, pp. 169 *et seq.*

But there is another comment to be made. The disappearance of private banks and the founding of banks run by the representatives of religious institutions and their transformation into both state banks, for issuing money and financing government operations, and private banks to support entrepreneurial activity, had made a clean break with a period lasting over many centuries during which banking was controlled by foreign banks. For the first time in Southern Italy's economic history, a Southern Italian banking system, run by Southern Italians, controlled to a great extent the movement of capital.